

**Island Investment  
Development Incorporated**



**Annual Report**

**2007/2008**



## Message from the Minister



March 31, 2008

The Honourable Barbara A. Hagerman  
Lieutenant Governor of Prince Edward Island

May it Please Your Honour:

Pursuant to the Annual Reporting Framework of the Financial Administration Act governing Crown Corporations, I am pleased to present to you the Annual Report of Island Investment Development Inc. for the fiscal year ending March 31, 2008. As the Minister responsible for the corporation, I am pleased with the results of the organization over the past year as we continue to view Immigration as a viable and sustainable component to solving the challenges faced by population growth.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard Brown".

Richard Brown  
Minister Innovation and Advanced Learning

## Table of Contents

Ministers Message.....	Page 2
Mandate/Mission/Vision.....	Page 4
Population Trending.....	Page 5
Population Growth.....	Page 5
Immigration.....	Page 6
Immigrant Partner.....	Page 8
Immigrant Connections.....	Page 8
Immigrant Entrepreneur.....	Page 9
Skilled Worker.....	Page 10
Provincial Nominee Program Impact.....	Page 11
Countries of Origin.....	Page 12
Business Investment .....	Page 13
Fund Management and Lending.....	Page 13
Appendix A: .....	Organization Chart and Board
Appendix B: .....	Financial Statements

**Mandate:** Island Investment Development Inc. is a crown corporation under the Ministry of Innovation and Advanced Learning and is responsible to implement and manage programs to increase Prince Edward Island's population through immigration. These programs are designed to educate, facilitate, attract and retain immigrants who will contribute to the economy and culture of Prince Edward Island.

Island Investment Development Inc. also administers the Island Funds and the Prince Edward Island Century 2000 Fund through the Federal Government's Immigrant Investor Program and is responsible for the delivery of the Prince Edward Island Provincial Nominee Program.



**Mission:** Island Investment Development Inc. mission is to undertake policy and program measures which will increase the number of Immigrant applicants wishing to immigrate to Canada and in particular Prince Edward Island. Island Investment

Development Inc. will endeavor to increase not only the number, but also the quality of applicants best suited to adapt and contribute to the Province's unique economy.



**Vision:** Utilizing our "flagship" Provincial Nominee Program, Island Investment Development Inc. will present to Prince Edward Island an educated/skilled, economically stable and culturally diverse population of Newcomers ready to participate in helping our economy grow and prosper.

### Overview

Immigration is playing a much more significant role in the growth of our economy and is helping address the challenges facing our labour force. Industries such as Bioscience, Aerospace and Information Technology are expanding and diversifying the Prince Edward Island economy.

Prince Edward Island has not played a significant role in the Immigration arena over the past number of years. Traditional Canadian destinations such as Ontario,

British Columbia and Quebec have long held the distinction as the location of choice for the vast majority of Newcomers to Canada. The profile of cities like Toronto, Montreal or Vancouver, remains a significant impediment to growth within smaller jurisdictions like Prince Edward Island.

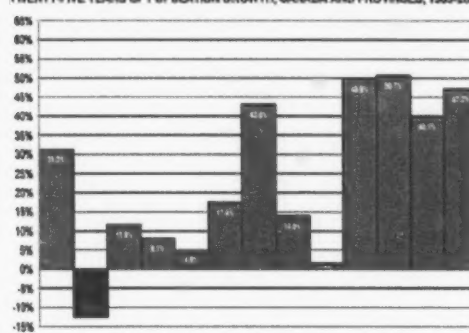
The need for specialized professionals and skilled trades-people, are now in very high demand. Many of these skill sets required by companies in these industries simply do not exist within the Province at the levels required by industry. Increasingly, companies are looking to the international community to source some of this talent.



### Population Trending

Compounding the challenges posed by Industry, is the fact that changing provincial demographics are pointing toward an aging population. This population dynamic will challenge the basic requirements of the workplace as aging "baby boomers" begin to retire.

TWENTY-FIVE YEARS OF POPULATION GROWTH, CANADA AND PROVINCES, 1983-2008



NT\* Northwest Territories and Nunavut

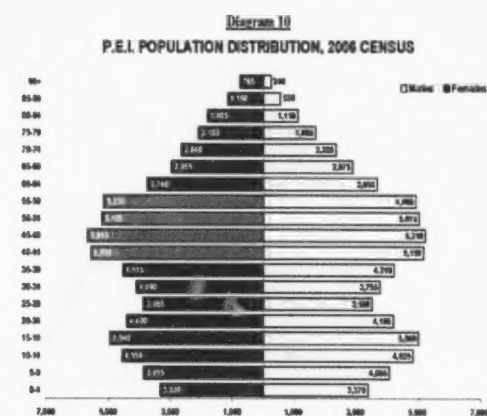
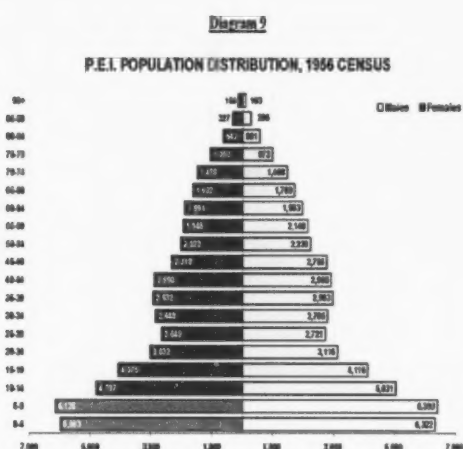
Source: Statistics Canada, Demography Division

This "greying" of the Prince Edward Island population is occurring for two primary reasons. First, life expectancy continues to lengthen with better health care and information. Second the fertility rate within Prince Edward Island families is falling below the replacement level needed to sustain our population and by extension our labour requirements. The result has been a dramatic increase in Prince Edward Island's median age in the past 25 years from 24.8 in 1972 to 41.3 years this year. During that same time frame the number of individuals over the age of 65 has increased from 11% of our total population in 1972, to just over 15% today. Immigration is a viable and sustainable means to accomplish population growth needed to grow our economy.

On July 1<sup>st</sup> of each year, Statistics Canada publishes its revised provincial population numbers. Prince Edward Island experienced an overall growth rate of .15%. This followed the first year of population decline in the Province in 2006 with a negative .10% rate. Numbers released for July 1<sup>st</sup> of 2008

reveal an even more encouraging growth rate of .96% just behind the National average of 1.25%.

Utilizing the most recent Census data of 2006 Prince Edward Island's percentage share of the overall Canadian population stands at .43%.



## Immigration

With the introduction of the Provincial Nominee Program in 2001, Prince Edward Island was afforded the opportunity to take a leadership role in determining its own destiny in the Immigration field.

### *Components of Growth 2006-2008 (July 1st to June 30<sup>th</sup> reporting periods)*

	July 1, 2005 to June 30, 2006	July 1, 2006 to June 30, 2007	July 1, 2007 to June 30, 2008
July 1st Population	138,055	137,920	138,127
Births	1,329	1,428	1,388
Deaths	1,165	1,187	1,217
Immigration (all categories)	352	738	1,282

The ability to partner with Citizenship and Immigration Canada to identify and process applicants who wish to live in a smaller Province such as Prince Edward Island has meant a drastic increase in the number of newcomers to the Province over the past several years.

Prior to the introduction of the Provincial Nominee Program, full responsibility for Immigration rested with the Federal Government and its lead department, Citizenship and Immigration Canada. Within all Federal categories of Immigration, Prince Edward Island consistently received between 100 to 150 per year in total

newcomers running across all categories, including Federal Skilled Workers, Refugees, Family Classes, etc.

Almost non-existent prior to the introduction of the Provincial Nominee Program in 2001, immigration accounted for 96.6 % of the migratory growth within Prince Edward Island in 2007-08. Inter-provincial migration gains of 3.4% account for the remaining increase. Modest positive growth in inter-provincial migration has been a recent occurrence, following three successive years of negative net migration. Last year (2006-07) alone losses of 849 individuals to other Provinces could not be offset by impressive immigration gains of 676 net international migrants.

#### **Our Programs**

Island Investment Development Inc. operates the leading program driver of Prince Edward Island's Immigration policy, the Provincial Nominee Program. Nominee Programs have transformed Immigration right across the country since their introduction ten years ago. In their inaugural year, Provincial Nominee Program's represented just .3% of all Permanent Resident category entrants in the country. By 2007, this percentage has increased to 7.2% or 17,094 individuals.



For the full 2007 calendar year, Prince Edward Island accounted for 992 of all permanent resident entries of the 236,754 Immigrants granted entry status in 2007 or .41% of the total allocation. This distribution represents a slightly smaller proportionate "share" of permanent resident entries than our population would dictate.

Of these newcomers, 71% of all entrants in calendar year 2007 came into Prince Edward Island via one of the Provincial Nominee Program streams. The remaining permanent residents gained status through a combination of Government Assisted Refugees, Federal Skilled Workers, or Federal Family Classes to name a few.

### Immigrant Partner Category

The Immigrant Partner Category of the Prince Edward Island Provincial Nominee Program is geared toward prospective immigrants who propose to make a \$200,000.00 investment in a Prince Edward Island company and to take an active role in the investee company. That role may be either as a director or as a senior manager defined at level "O" of the National Occupational Code.

All applications under the Immigrant Partner Category must go through a recognized Prince Edward Island Investment Intermediary. In order to qualify under this category, applicants must provide proof of business ownership (or management experience), education, personal net worth and family information. As evidence of good faith, the Province of Prince Edward Island requires the principal applicant to pay a \$25,000.00 deposit which is fully refundable one year after landing and living in Prince Edward Island.

Principal applicants without English or French language capability must make a \$20,000.00 Language Deposit and agree to study English and/or French.



The Language Deposit is fully refundable one year after the official landing date in Canada; providing the principal applicant has met all conditions for refund.

### Immigrant Partner

	2006-07	2007-08
Applications	1605	997
PEI Nominations	367	750
PEI Withdrawn	57	70
PEI Declined	247	313
CIC Approved	215	380
CIC Declined	12	2
CIC Withdrawn	3	2
Canada Landed	180	323

Nominations over the past fiscal year have increased in this category, to 750 by March 31<sup>st</sup> of this year. This represents an increase of 383 applicants over 2006-07. Citizenship and Immigration Canada approvals over this same period have increased by 77% or 380 applicants. (Note: Due to processing at the Federal level, Provincial Nominee Program nominees may not appear in Prince Edward Island or Canada until the following year.)

### Immigrant Connections

The Government of Prince Edward Island, through the Provincial Nominee Office, welcomes Canadian citizens and permanent residents who have established themselves in Prince Edward Island to tell us who their "Connections" are, or who they would like Prince Edward Island to nominate.

There is qualifying criteria for the "Champions", the people who can make such a recommendation, as well as who can be nominated. The program looks for people and families who can earn a living on Prince Edward Island, and who will make a long term, meaningful commitment to both the Champion's life and to the broader community.

This is an honor based program. Champions are not required to sign a formal agreement or provide a financial guarantee.

Family connections nominees must demonstrate, among many criteria, to have an offer of full time employment or demonstrate the capability to work in the province and provide evidence of their intent to live on Prince Edward Island.

28 nominations were made over the course of 2007-08.

#### **Immigrant Connections**

	2006-07	2007-08
Applications	87	25
PEI Nominations	80	28
PEI Withdrawn	0	2
PEI Declined	1	5
CIC Approved	24	46
CIC Declined	1	1
CIC Withdrawn	0	0
Canada Landed	13	47

Note: As with all other processing at the Citizenship and Immigration Canada level, a lag time exists between the nomination

submission and Citizenship and Immigration Canada approval stage, thus the reason for a higher approval level to nomination ratio in 2007-08.



#### **Immigrant Entrepreneur**

The Immigrant Entrepreneur program welcomes business owners with the drive, skills and marketable concepts to be successful in Prince Edward Island's unique economy. Entrepreneurs must meet standard criteria, including a minimum net worth of \$400,000, a willingness to invest a minimum of \$100,000 to purchase no less than a 33 % share of an existing business and meet the maximum age (55) and education requirements. The applicant must also make a business investment deposit of \$100,000, which is held in escrow for a period of one year and returned upon the completion of one year of residency and the establishment of the business.

Similarly to the Immigrant Partner category, applicants must participate in the Good Faith Deposit agreement and where required, the Language Deposit agreement.

Traditionally, this program has experienced the smallest volume of applications of each of the four Provincial Nominee Program

streams. In 2007-08, the number of nominations more than doubled from the previous year with 11.

#### ***Immigrant Entrepreneur***

	2006-07	2007-08
Applications	26	10
PEI Nominations	5	11
PEI Withdrawn	1	4
PEI Declined	8	10
CIC Approved	5	5
CIC Declined	0	0
CIC Withdrawn	0	1
Canada Landed	3	6

#### ***Skilled Worker***

Prince Edward Island's increasingly diverse economy provides a variety of employment opportunities. Although the Province has an unemployment rate of just over 10%, fully half of the unemployment relates to individuals who participate in traditional, seasonal industries, such as fishing, farming, forestry and tourism. The other half - just over 5% of the Island's unemployment -



relates to permanent employment in manufacturing, retail and the services sector. Unemployment at that level is not sufficient to provide the necessary workers required for the full economic spectrum.

Prince Edward Island is home to a small work force and, as such, labour market gaps are a reality. The Skilled Worker category of the Provincial Nominee Program is designed to help resolve labour shortages and allow fortunate applicants and their families to enjoy the richness of life in Prince Edward Island.

Prince Edward Island provides employment opportunities for an increasing number of highly skilled individuals. In particular, there are currently openings for workers in several of our high tech and science based industries.

The Skilled Worker category is viewed as a harbinger of growth for many in our newly emerging industries such as Bioscience, Aerospace and Information Technology. Significant effort and resources are being expended to recruit and retain talented and qualified international professionals and

skilled tradespeople. A highly competitive marketplace exists for the services of these workers not only from other countries but also from other Provinces within Canada.

Prince Edward Island has taken an active role in collectively marketing the region with our neighbouring provinces of New Brunswick, Nova Scotia and Newfoundland and Labrador. Under the auspices of the Agreement for Team Atlantic Immigration Promotion, Prince Edward Island now has the support required to compete with other jurisdictions around the world for skilled workers.

Co-ordinated through the Prince Edward Island Population Secretariat, Skilled Worker recruitment is now tracked via a sophisticated database enabling us to monitor the progress of skilled workers from initial contact through to the stage of arrival.



Skilled Worker nominations experienced a decline in the past year falling from 53 in

2006-07 to 34 this past year. This represents a reduction of 36%. Many factors contribute to the success of this category, not the least of which is the job vacancies that exist within Prince Edward Island industry which continues to be employment driven.

#### **Skilled Worker**

	2006-07	2007-08
Applications	66	50
PEI Nominations	53	34
PEI Withdrawn	4	10
PEI Declined	1	15
CIC Approved	29	42
CIC Declined	1	1
CIC Withdrawn	1	1
Canada Landed	27	41

#### **Provincial Nominee Program Impact**

Island Investment Development Inc. tracks applications based on the information provided by principal applicants primarily. To gain a full understanding of the critical impact this program has had on the Prince Edward Island environment, a population based multiplier is used to estimate the average number of people associated with each principal applicant. For the purposes of generating the number of individuals landing in the province, the multiplier used is 2.4 dependants per principal applicant. This takes into account the average of all families arriving via any of the four Provincial Nominee Program categories. 417 Canada Landed Immigrants declared Prince Edward Island as their intended

destination through the four Provincial Nominee Program categories. Utilizing the multiplier, Island Investment Development Inc. estimates 1001 Immigrants arriving in the Province in 2007-08.

The "potential" number of immigrants arriving over the course of the next two years is 2781. This is based solely on the number of nominations made in 2007-08.

***Principal Applicants and Dependents by Age***

Nominations	2006-07	2007-08
Principal Applicant	505	823
Spouse/Common Law Partner	420	744
Dependents Aged 1-3	18	33
Dependents Aged 4-17 (school age)	392	657
Dependents Aged 18-24	244	451
Dependents Aged 25+	59	73
Total Principal Applicants and Dependents	1638	2781

Note: The above data is based on nominations only. Landings of applicants may not occur in the same year.

***Countries of Origin***

Prince Edward Island has been fortunate to attract newcomers from a wide array of countries around the world. This has led to an increasingly diverse population mix throughout the province.

Among the many countries of origin, certain trends are beginning to emerge surrounding the leading countries where the largest numbers are being attracted to the province. China, Korea and the Middle East consistently are tracking the largest volume of applications to the Provincial Nominee Program in Prince Edward Island. China, in particular, continues to outpace all other source countries of newcomers to the province as evidenced by the table below.

***Principal Applicants by Top 10 Countries of Origin in 2007-08***

	2006-07	2007-08
1.China	236	535
2. Iran	28	100
3.Korea (South)	58	56
4.Taiwan	27	30
5.United Kingdom	22	13
6.United States	15	9
6.Iraq	1	9
8.Philippines	1	8
9.Russia	9	6
10.Lebanon	3	4
10.Egypt	1	4
10.Dominican Republic	0	4

Note: Full account of all source countries broken out by category included in Appendix B

## Business Investment

The Provincial Nominee Program has been a driver not only in advancing the capacity of our workforce and diversifying our population but also in stimulating business investment in local companies. As demonstrated in the Immigrant Entrepreneur category, newcomers are making investments in the local economy either through new business start ups or via the purchase of existing businesses. This element could become a key component of future succession planning as more and more Island business leaders move toward retirement.

Equally important has been the significant direct investment made to hundreds of Prince Edward Island companies over the past year through the Immigrant Partner category. Each Immigrant applicant makes an investment of \$200,000 which encompasses both the costs associated with advancing the Provincial Nominee Program nomination (agent fees, legal, administration etc) and the direct investment into the company. These investments are made in qualifying companies who have been pre-screened by Island Investment Development Inc. for eligibility. Businesses, depending on size and function, are eligible for up to four investors.



Significant expansion in the Immigrant Partner category nominations over the past year has increased the amount of business investment made to local industry. The number of investments made into Island companies reached an all time high this year of 743, representing a 78% increase over the past year.

## Fund Management and Lending

Island Investment Development Inc., through Prince Edward Island Century 2000 Fund Inc. ("PEICF"), receives repayable advances from the Federal Immigrant Fund which are in turn used to make strategic repayable loans to Prince Edward Island businesses in an effort to stimulate economic development.

General lending conditions associated with PEICF loans are as follows:

- Loans are available for a maximum term of 5 years, which matches PEICF's 5 year term with the Federal Immigration Fund;
- Loans bear interest at an annual rate of 4%. The annual rate is comprised

of PEICF's cost of borrowing from the Federal Immigration Fund, the cost to administer the loan portfolio and the risk associated with lending activities;

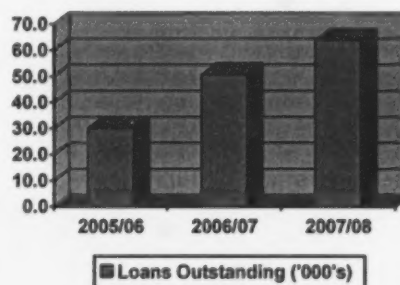
- PEICF does not offer borrowers the option to refinance their loan with PEICF at the conclusion of their 5 year term; and
- All loans must be secured and, as such, PEICF seeks similar security packages as would be ordinarily sought by a traditional chartered bank.

PEICF's lending activities are aligned with Prince Edward Island Business Development Inc.'s ("PEIBDI") strategic sectors of Aerospace, Manufacturing, Bioscience, Food Processing, and Information Technology. On occasion, PEICF may also finance certain strategic projects that may fall outside of PEIBDI's strategic sectors, but have significant economic benefits to the Island community.

Some good examples of PEICF's strategic lending activities would be our participation in certain real estate development projects in Summerside, Stratford and Charlottetown that have resulted in the relocation of off-Island businesses and jobs to these communities.

Within PEIBDI's strategic sectors, PEICF strives to focus its lending activities on manufacturers, processors and service providers with business activities that target export, import replacement and value-added processing. In fiscal 2007/08, PEICF's loan portfolio exhibited strong growth with 21 loans being approved for a total

investment of \$34.3 million in Island businesses. Total investment increased 145% over the prior fiscal with an average loan size of \$1.6 million. Overall, the total number of loan accounts at year-end increased by 47% to 53 while the portfolio value (loans outstanding) grew by 26% to \$63.8 million in comparison to the prior fiscal year.



In many instances PEICF works in partnership with traditional lending institutions, Federal Government agencies and other local economic development agencies to complete financing packages for projects.

PEICF's loan portfolio is managed by the Lending Services division of PEIBDI, the lead provincial crown corporation responsible for business development.

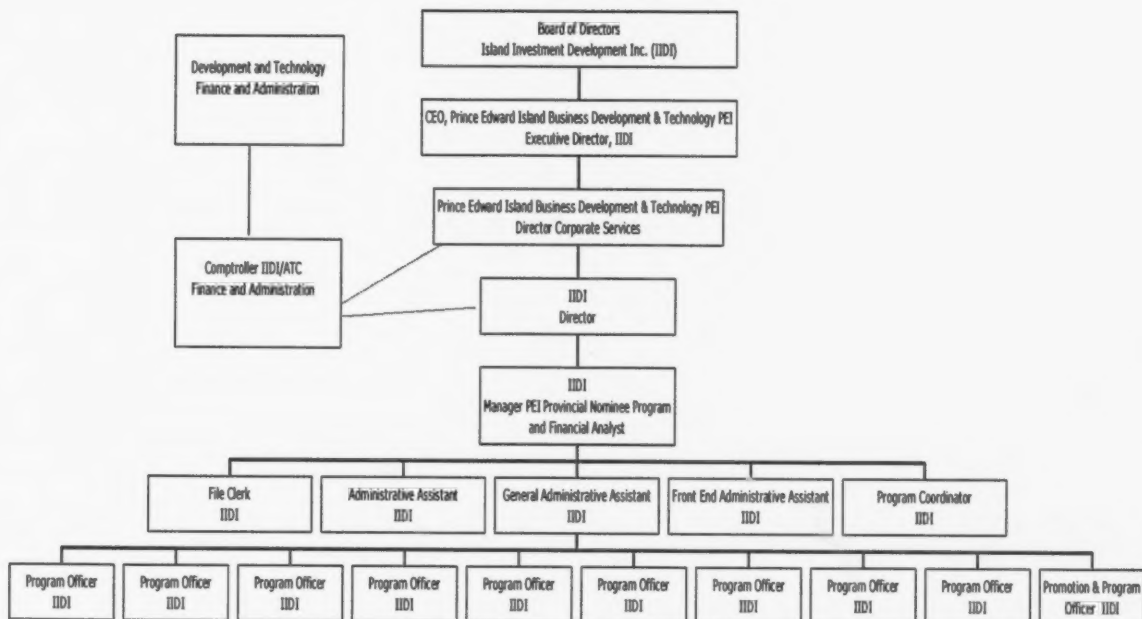
## **Appendix A**

### **Island Investment Development Inc. Organizational Chart**

### **Island Investment Development Inc. Board of Directors**

## Organizational Chart

Annual Report 2007-2008



# Island Investment Development Inc.

## Board of Directors

2007-08

Board Member	Department
Brooke MacMillian (Chairperson)	Innovation and Advanced Learning
Paul R. Jelley	Provincial Treasury
Melissa MacEachern	Tourism
Allan Smith	Innovation and Advanced Learning

## **Appendix B**

# **Audited Financial Statements**

# **Island Investment Development Inc.**

**Consolidated Financial Statements**  
**March 31, 2008**



**ArsenaultBestCameronEllis**  
**CHARTERED ACCOUNTANTS**

A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &  
Business Advisors  
Prince Edward Place  
80 Water Street  
PO Box 455  
Charlottetown, Prince Edward Island  
Canada C1A 7L1  
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Fax (902) 566-5074  
www.acga.ca

May 23, 2008

**Auditors' Report**

**To the Board of Directors of  
Island Investment Development Inc.**

We have audited the consolidated balance sheet of **Island Investment Development Inc.** as at March 31, 2008 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*ArsenaultBestCameronEllis*

**Chartered Accountants**

# Island Investment Development Inc.

## Consolidated Balance Sheet

As at March 31, 2008

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	20,132,471	2,821,672
Marketable securities	52,633,919	32,436,419
Accounts receivable (note 11)	252,796	293,757
Accrued interest receivable (note 11)	522,978	119,650
Current portion of notes receivable	7,806,908	4,795,137
	81,349,072	40,466,635
<b>Notes receivable, less current portion (notes 4 and 11)</b>	45,938,343	44,012,437
<b>Deferred financing costs (note 5)</b>	5,365,120	3,611,468
<b>Funds held in trust (note 9)</b>		
Cash and marketable securities	25,413,982	10,842,399
Demand loan receivable (note 6)	15,000,000	15,000,000
Notes receivable (note 7)	17,453,490	2,794,623
	190,520,007	116,727,562
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 11)	2,338,377	453,381
Current portion of accrued interest payable	-	27,199
Current portion of long-term debt	5,837,184	5,725,090
	8,175,561	6,205,670
<b>Long-term debt, less current portion (note 8)</b>	121,668,965	81,386,959
<b>Funds held in trust (note 9)</b>	57,867,472	28,637,022
	187,711,998	116,229,651
<b>Retained earnings</b>	2,808,009	497,911
	190,520,007	116,727,562

Approved by the Board of Directors

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# Island Investment Development Inc.

## Consolidated Statement of Retained Earnings

For the year ended March 31, 2008

	2008 \$	2007 \$
Retained earnings - Beginning of year	497,911	223,851
Change in accounting policy for financial instruments	(18,568)	-
Retained earnings at April 1, as restated	479,343	223,851
Net earnings for the year	4,328,666	2,274,060
	4,808,009	2,497,911
Dividends (note 10)	2,000,000	2,000,000
Retained earnings - End of year	2,808,009	497,911

# Island Investment Development Inc.

## Consolidated Statement of Earnings

For the year ended March 31, 2008

	2008 \$	2007 \$
<b>Revenue</b>		
Interest on notes receivable (note 11)	3,290,875	2,637,591
Investment income	2,363,142	996,625
Provincial Nominee Program fees	3,449,351	1,771,000
Provincial Nominee Program defaults (note 9)	2,098,095	2,379,189
Business processing fees	780,389	-
	<u>11,981,852</u>	<u>7,784,405</u>
<b>Expenses</b>		
Salaries	713,487	627,969
Management fees (note 11)	450,000	250,000
Interest and bank charges	999	1,159
Interest on long-term debt	4,438	32,590
Professional fees	84,174	27,145
Office	41,716	33,357
Meetings and conferences	3,716	16,227
Promotion and advertising	6,642	21,980
Equipment	58,005	18,164
Provision for possible losses	4,296,468	2,662,343
Consulting fees	38,359	17,921
Travel	55,882	66,577
Grants - private companies	175,437	198,246
Education contribution (note 11)	390,314	50,000
Population secretariat (Schedule)	277,447	369,641
Rent	50,000	-
Amortization	1,456,986	1,147,342
	<u>8,104,070</u>	<u>5,540,661</u>
<b>Operating earnings</b>	<u>3,877,782</u>	<u>2,243,744</u>
<b>Other income</b>		
ACOA grant	-	30,316
Unrealized gain on marketable	450,884	-
	<u>450,884</u>	<u>30,316</u>
<b>Net earnings for the year</b>	<u>4,328,666</u>	<u>2,274,060</u>

# Island Investment Development Inc.

## Consolidated Statement of Cash Flows

For the year ended March 31, 2008

	2008 \$	2007 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	4,328,666	2,274,060
Amortization	1,456,986	1,147,342
Unrealized gain on marketable securities	(450,884)	-
Recovery of provision for possible losses	4,296,468	2,662,343
	9,631,236	6,083,745
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	40,961	(64,942)
Decrease (increase) in accrued interest receivable	(403,328)	209,938
Increase in accounts payable and accrued liabilities	1,884,996	174,913
Decrease in accrued interest payable	(27,199)	(225,554)
Increase in funds held in trust - liability	29,230,450	14,738,723
	40,357,116	20,916,823
<b>Financing activities</b>		
Decrease in advances to escrow agent	-	921,750
Decrease in due to related company	-	(39,000)
Increase in long-term debt - net	40,394,100	7,024,114
Dividend	(2,000,000)	(2,000,000)
	38,394,100	5,906,864
<b>Investing activities</b>		
Increase in funds held in trust - demand loan receivable	-	(15,000,000)
Increase in marketable securities - net	(19,765,184)	(15,264,206)
Decrease (increase) in funds held in trust - cash and marketable securities	(14,571,583)	3,055,900
Increase in funds held in trust - notes receivable - net	(17,365,510)	(2,794,623)
Increase in notes receivable - net	(6,527,502)	(6,469,570)
Decrease in demand loan receivable	-	12,550,605
Increase in deferred financing costs	(3,210,638)	(1,221,250)
	(61,440,417)	(25,143,144)
<b>Net change in cash</b>	17,310,799	1,680,543
<b>Cash - Beginning of year</b>	2,821,672	1,141,129
<b>Cash - End of year</b>	20,132,471	2,821,672
<b>Supplementary disclosure</b>		
Interest received	5,271,011	4,238,523
Interest paid	5,437	290,307

## Island Investment Development Inc.

Non-consolidated Schedule of Population Secretariat Expenses  
For the year ended March 31, 2008

	2008	2007
	\$	\$
Salaries	190,036	260,662
Office and miscellaneous	11,727	9,808
Professional fees	(5,687)	6,676
Promotion and marketing	14,352	40,715
Travel and training	18,241	15,434
Consulting fees - People Project	48,778	36,346
	<u>277,447</u>	<u>369,641</u>

# **Island Investment Development Inc.**

## **Notes to Consolidated Financial Statements**

**March 31, 2008**

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### **1 Basis of presentation**

#### **Consolidation**

These financial statements include the operations of Island Investment Development Inc. and its three wholly-owned subsidiaries, Prince Edward Island Government Economic Development Fund (No. IV) Inc. (Fund IV), Prince Edward Island Government Economic Development Fund (No. V) Inc. (Fund V), and Prince Edward Island Century 2000 Fund Inc. (Century 2000 Fund).

#### **Corporate status**

The company is a provincial Crown corporation established under the provisions of the Island Investment Development Inc. Act and is therefore a non-taxable entity under the provisions of the Income Tax Act.

The company is the corporate administrator of government-administered venture capital funds in the Province of Prince Edward Island with its purpose to invest in active business operations. The investments are made in typically new or expanding companies and, as such, there is a significant degree of credit risk. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

The company administers the Prince Edward Island Provincial Nominee Program on behalf of the Province of Prince Edward Island, and charges applicants under the program a fee to process the application received.

The company also administers the Population Secretariat whose mandate is to expand the Province's population by focusing on retention, repatriating former residents and positioning Prince Edward Island as a niche destination for international immigrants.

### **2 Summary of significant accounting policies**

#### **Notes receivable**

The notes receivable are recorded at cost with interest recorded on an accrual basis. When there is an identifiable long-term permanent decline in value, the investments will be written down to their estimated fair value. Any write downs or losses on disposal will be recorded in the year they occur.

#### **Revenue recognition**

Interest accrued on notes receivable is recognized as revenue in the period earned except where a loan is classified as impaired. Interest earned on an impaired loan is recognized as revenue only when it has been received.

Investment income and business processing fees are recorded in the period earned.

Provincial Nominee Program fees are recorded as revenue when received.

Provincial Nominee Program defaults are recorded as revenue in the year in which the deposit period ends and the applicant does not meet the conditions for repayment.

# Island Investment Development Inc.

## Notes to Consolidated Financial Statements

March 31, 2008

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### **Government assistance**

Government assistance received as reimbursement of current year expenses is recorded as a reduction in the applicable expense for the year. During the year, the company received federal government assistance of \$167,829 (2007 - \$66,470) which has been recorded as a reduction of meetings and conferences expense of \$167,829 (2007 - \$61,470) and consulting fees - People Project of nil (2007 - \$5,000). Government assistance received for prior year expenses is recorded as other income.

### **Provision for possible losses**

Any provision for possible losses on the notes receivable is recorded in the statement of earnings based on historical trends and management's judgment.

#### Specific provision

A provision is recorded for specific notes receivable to reduce their book value to an amount expected to be recovered from the notes in the event of an impairment in value. A variety of methods are used to determine the amount expected to be recovered from impaired notes receivable including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken. The specific provision at March 31, 2008 is \$2,120,131 (2007 - \$1,145,000).

#### General provision

A general provision is recorded for notes receivable on the basis that not all of the impairment in the notes receivable can be specifically identified. The general provision of \$10,610,886 (2007 - \$7,289,550) is based on past performance of similar notes, the level of the specific provision, management's judgment and the maturity and financial strength of the investees.

An impaired loan is a loan where, in management's opinion, there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

### **Property and equipment**

It is the company's policy to expense items of furniture and equipment in the year in which they are acquired.

### **Deferred financing costs**

The costs incurred in obtaining financing have been capitalized and are being amortized using the straight-line basis over sixty months, commencing when projects have been approved and loans to borrowers drawn down for Fund IV and Fund V, and commencing with the issuance of the note payable for Century 2000 Fund.

### **Interest on long-term debt**

Interest expense on the notes payable is accrued from the date of the closing. Interest paid to refunded investors is calculated from the date funds are deposited by the escrow agent.

# Island Investment Development Inc.

## Notes to Consolidated Financial Statements

March 31, 2008

### Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reported period. Actual results could differ from those reported.

### Changes to Accounting Standards - financial instruments

Effective April 1, 2007, Island Investment Development Inc. adopted the following new accounting standard issued by the Canadian Institute of Chartered Accountants.

Section 3855, *Financial Instruments - Recognition and Measurement*, which describes the standards for recognizing and measuring financial assets, financial liabilities and derivatives. This section requires that:

- all financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their amortized cost.
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

Section 3861, *Financial Instruments - Disclosure and Presentation*, which replaced Section 3860 and provided additional presentation and disclosure requirements in relation to the issuance of Section 3855. The majority of these standards were previously contained in Section 3860.

As the changes to accounting policies required by these new Sections have been adopted prospectively, prior period financial statements have not been restated and the following adjustments were made to the opening balances:

	Opening balance, as previously reported \$	Adjustment of carrying value of financial instruments to fair value \$	Opening balance, as restated \$
Marketable securities	32,436,419	(18,568)	32,417,851
Total assets	116,727,562	(18,568)	116,708,994
Total liabilities	116,229,651	-	116,229,651
Net Assets	497,911	(18,568)	479,343

# Island Investment Development Inc.

## Notes to Consolidated Financial Statements

March 31, 2008

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### Financial instruments

The Company's financial instruments include cash, marketable securities, accounts receivable, accrued interest receivable, notes receivable, demand loan receivable, accounts payable and accrued liabilities and long-term debt. They are classified as follows:

Marketable securities have been classified as "held for trading" and are carried at fair value, as represented by quoted market prices.

Notes receivable have been classified as "loans and receivables" and are recorded at amortized cost using the effective interest rate.

Long-term debt is recorded at amortized cost using the effective interest method.

Due to their short-term nature, all other financial instruments are considered to be carried at amounts which approximate their fair value.

When available, fair value is determined by reference to quoted market price.

The Company does not enter into financial hedging activities and does not engage in derivative transactions.

### Financial risk management objectives and policies

Consistent with similar organizations, the Company's risk management policies are part of the overall management of the Company's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. As part of the overall management of the Company's operations management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage the Company's exposure.

### 3 Fair value of financial instruments

The following is a summary of the Company's long-term financial instruments that are carried on the statement of financial position:

	2008 \$	2007 \$
Marketable securities - carrying value	52,633,919	32,436,419
- fair value	52,663,919	32,417,851

# Island Investment Development Inc.

## Notes to Consolidated Financial Statements

March 31, 2008

### 4 Notes receivable

#### General

The notes receivable bear interest at 4%, have various interest and principal repayment terms, and have due dates ranging from May 2008 to March 2013.

The notes receivable are invested in the following business sectors with terms to maturity as disclosed in note 14:

	2008				2007	
	Total \$	Impaired loans included in total \$	General provision \$	Specific provision \$	Net \$	Net \$
Working capital	11,315,200	-	1,881,620	-	9,433,580	-
Manufacturing and processing	36,808,653	2,449,434	4,596,349	1,880,131	30,332,173	29,390,637
Shipbuilding/shipping	7,933,550	-	793,355	-	7,140,195	11,466,916
Tourism	3,674,666	240,000	343,467	240,000	3,091,199	3,526,405
Technology	1,981,832	-	198,183	-	1,783,649	2,105,985
Agriculture	72,695	-	7,270	-	65,425	-
Small business	1,143,030	-	-	-	1,143,030	1,116,772
Aerospace	840,000	-	84,000	-	756,000	1,200,859
	63,769,626	2,689,434	7,904,244	2,120,131	53,745,251	48,807,574
Less: Current portion	8,913,908	283,744	902,567	204,433	7,806,908	4,795,137
	54,855,718	2,405,690	7,001,677	1,915,698	45,938,343	44,012,437

#### Related party notes:

Included in shipbuilding/shipping notes is a nil (2007 - \$6,599,998) note receivable due from Prince Edward Island Business Development Inc.

Included in technology notes is a \$981,832 (2007 - \$990,000) note receivable due from The Charlottetown Area Development Corporation, a corporation which is 83% owned by the Province of Prince Edward Island.

#### Continuity of allowance for possible losses

	2008 \$	2007 \$
Allowance for possible losses - Beginning of year	8,434,550	5,772,207
Add: Provision recorded during the year	1,738,825	2,662,343
Recovery of provision for possible losses (loan written off during the year)	(149,000)	-
Allowance for possible losses - End of year	10,024,375	8,434,550

# Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2008

## 5 Deferred financing costs

	2008		2007	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Island Fund IV Placement and escrow fees	-	-	-	6,860
Century Fund 2000 Facilitation commissions	9,352,501	3,987,381	5,365,120	3,604,608
	9,352,501	3,987,381	5,365,120	3,611,468

## 6 Demand loan receivable - funds held in trust

During the prior year, the company has entered into an agreement with Prince Edward Island Business Development Inc., a provincial Crown corporation, to provide a \$15,000,000 revolving line of credit. The balance of the line of credit at March 31, 2008 is \$15,000,000 (2007 - \$15,000,000).

Interest is charged monthly at a rate equal to the Department of Provincial Treasury of Prince Edward Island's short-term lending rate and the total amount is repayable on demand.

The demand loan is secured by a promissory note for \$15,000,000 and a revolving credit agreement.

## 7 Notes receivable - funds held in trust

					2008	2007
	Total \$	Impaired loans included in total \$	General provision \$	Specific provision \$	Net \$	Net \$
Related party	20,150,133	-	2,706,643	-	17,443,490	2,794,623
Other	10,000	-	-	-	10,000	-
	20,160,133	-	2,706,643	-	17,453,490	2,794,623

The notes receivable bear interest at 4% and have various interest and principal payment terms, and have due dates ranging from October 2008 to January 2013. The principal amount due on the notes receivable in the 2009 fiscal year is \$12,575,233 (2007 - \$2,375,539).

## Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2008

### 8 Long-term debt

	2008 \$	2007 \$
Non-interest bearing notes payable, nominally dated with dates ranging from April 1, 2003 to April 1, 2008, repayable in full in five years pursuant to the federally administered Immigrant Investor Program	127,506,149	86,612,049
1% notes payable, repaid during the year	-	500,000
	127,506,149	87,112,049
Less: Current portion	5,837,184	5,725,090
	121,668,965	81,386,959

All notes payable are pursuant to the Offering Memorandum and Immigrant Investor Regulations.

The Province of Prince Edward Island has provided a guarantee of the non-interest bearing notes payable to the Minister of Citizenship and Immigration (Agent) in the event of the failure of Prince Edward Island Century 2000 Fund Inc. to repay the notes payable to the Agent within 30 days following the end of the allocation period.

Interest expense on the notes payable is accrued from the date of closing. Interest paid to refunded investors is calculated from the date funds are deposited by the escrow agent.

The principal payments required on the long-term debt to meet retirement provisions is as follows:

	\$
Year ending March 31, 2009	5,837,184
2010	31,227,126
2011	26,564,869
2012	17,757,580
2013	45,864,766

## Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2008

### 9 Funds held in trust

Funds held in trust consist of:

	2008 \$	2007 \$
Amounts held under the Prince Edward Island Provincial Nominee Program - Good Faith deposits	36,254,410	18,759,695
Amounts held under the Prince Edward Island Provincial Nominee Program to be invested in local businesses	1,869,716	1,344,899
Amounts held under the Prince Edward Island Provincial Nominee Program for language deposits	19,743,346	8,532,428
	<u>57,867,472</u>	<u>28,637,022</u>

- a) Certain applicants under the Prince Edward Island Provincial Nominee Program have entered into a good faith deposit agreement with the company. Under this agreement, each applicant deposits \$25,000 with their application and it is kept in trust for a period of one year from the date the applicant is granted permanent resident status by the Government of Canada. At the end of this period, the deposit is returned to the applicant, plus interest, provided the applicant provides evidence that the conditions set out in the agreement have been met. In the case that the applicant does not meet the conditions for repayment, the company records the deposit amount, plus accrued interest, as revenue in the fiscal year in which the deposit period ends. During the year, forty-four applicants (2007 - twenty-eight) were refunded totaling \$1,147,144 (2007 - \$709,774) and seventy-six applicants (2007 - eighty-nine) defaulted totaling \$2,057,246 (2007 - \$2,379,187).
- b) Certain applicants under the Prince Edward Island Provincial Nominee Program - Entrepreneur Program have entered into an escrow agreement with the company. Under this agreement, each applicant deposits \$100,000 in trust until such time as the conditions set out in the escrow agreement have been met. Once the conditions have been met, the deposit is returned to the applicant, plus interest. In the case that the applicant does not meet the conditions for repayment, the company records the deposit amount, plus accrued interest, as revenue in the fiscal year in which the deposit period ends. During the year, one applicant (2007 - three) was refunded totaling \$100,00 (2007 - \$312,540) and no applicants (2007 - none) defaulted totaling nil (2007 - nil).
- c) Certain applicants under the Prince Edward Island Provincial Nominee Program have entered into a language proficiency agreement with the company. Under this agreement, each applicant deposits \$20,000 with their application and it is kept in trust for a maximum of one year after the applicant is granted permanent residents status by The Government of Canada. Once the conditions of the agreement are met, the deposit is returned to the applicant plus interest at 1%. If the conditions are not met, the company records the deposit amount, plus accrued interest, as revenue in the fiscal year in which the deposit period ends. During the year, sixty-six applicants (2007 - nine) were refunded totaling \$1,354,632 (2007 - \$181,206) and two (2007 - none) applicants were defaulted totalling \$40,849 (2007 - nil).

## Island Investment Development Inc.

### Notes to Consolidated Financial Statements

March 31, 2008

For all above-noted agreements signed subsequent to April 1, 2006, the applicant's deposits are non-interest bearing with any interest earned on the deposits being recorded as revenue by the company.

For all above-noted agreements signed prior to April 1, 2006, all interest earned on funds held in trust is recorded in the trust when interest is received by the company.

Certain funds held in trust have been invested in demand loans receivable and notes receivable as disclosed in the balance sheet and notes 4 and 7. Interest earned on these items related to non-interest bearing deposits is recorded as revenue on the Statement of Earnings.

	2008 \$	2007 \$
Total interest earned on demand loan and notes receivable	848,493	420,717
Amount related to interest bearing deposits held in trust	(170,201)	(229,079)
Amount related to non-interest bearing deposits recorded as revenue	678,292	191,638

#### 10 Remittance to Province of Prince Edward Island

During the year, the company agreed to transfer \$2,000,000 (2007 - \$2,000,000) of current year net earnings to the Province of Prince Edward Island - Department of Provincial Treasury. This remittance has been recorded as a dividend in the Statement of Retained Earnings.

#### 11 Related party transactions

Included in accounts receivable is \$10,000 (2007 - nil) from the Department of Agriculture, nil (2007 - \$5,000) from the Department of Development and Technology and nil (2007 - \$5,355) from Corporate Services Ltd., a subsidiary of a provincial Crown corporation. Included in accrued interest receivable is \$30,865 (2007 - \$4,833) due from Prince Edward Island Business Development Inc., a provincial Crown corporation and \$3,219 (2007 - \$3,255) due from The Charlottetown Area Development Corporation.

During the 2007 fiscal year, the Prince Edward Island Lotteries Commission borrowed \$2,100,000 at the Treasury Board rate from the company and the full amount was repaid February 2007.

Included in accounts payable and accrued liabilities is \$2,000,142 (2007 - \$45,241) to the Province of Prince Edward Island, \$70,724 (2007 - \$126,580) to Prince Edward Island Business Development Inc. and nil (2007 - \$50,000) to the Department of Education.

Included in interest on notes receivable is \$1,040,164 (2007 - \$1,134,865) from Prince Edward Island Business Development Inc., \$39,629 (2007 - \$12,260) from The Charlottetown Area Development Corporation, nil (2007 - \$2,528) from F.T.C. Enterprises Limited and nil (2007 - \$48,382) from Prince Edward Island Lotteries Commission, owned by the Province of Prince Edward Island.

## **Island Investment Development Inc.**

### **Notes to Consolidated Financial Statements**

**March 31, 2008**

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Included in expenses are management fees of \$450,000 (2007 - \$250,000) paid to Prince Edward Island Business Development Inc.

During the year, the company made a grant of nil (2007 - \$50,000) to the Department of Education, a department of the Province of Prince Edward Island.

Corporate Services Ltd. and F.T.C. Enterprises Limited are wholly-owned subsidiaries of Prince Edward Island Business Development Inc.

The Charlottetown Area Development Corporation is 83% owned by the Province of Prince Edward Island.

## **12 Agent agreement**

### **Prince Edward Island Century 2000 Fund Inc.**

The Federal Minister of Citizenship and Immigration acts as an Agent for Prince Edward Island Century 2000 Fund Inc. (the company) by receiving investments from immigrant investors and disbursing them to the company in accordance with the allocation formula set out in the federal Immigration Regulations, 1978. All monies received by the Agent pursuant to the issuance of debt obligations by the company are to be held by the Agent in a separate account from the moment such monies are received, on behalf of the company. Certain facilitated investments are subject to a commission agreement whereby a 7% commission on the provincial allocation is paid to a party which facilitates an investment, effective for facilitated investments received on or after July 1, 2001. These commissions are paid out of the special account by the Agent on the first day of the second month following the issuance of a visa to the investor who made the facilitated investment, and are recorded as deferred financing charges by the company.

The Agent disburses the provincial allocation, less applicable commissions, to the company at the beginning of the five-year allocation period. The Agent issues a promissory note to the investor on behalf of the company. The company is obligated to repay the note, bearing interest at 0%, within 30 days after the expiry of the allocation period.

The company is required to repay the investor, through the Agent, the investor's provincial allocation within 90 days of receipt by the Agent of a request by the investor to withdraw his/her application for permanent residence, or upon the refusal of the application by the Minister.

During the year, no notes (2007 - two notes) were refunded for nil (2007 - \$149,682) reducing notes payable by nil (2007 - \$149,682)

## **13 Commitments**

Prince Edward Island Century 2000 Fund Inc. loans approved but not disbursed at March 31, 2008 amounts to \$28,367,204 (2007 - \$12,096,376).

# Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2008

## 14 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date.

	Under 1 year \$	Over 1 to 5 years \$	Not interest rate sensitive \$	Total \$
<b>Assets</b>				
Cash	20,132,471	-	-	20,132,471
Marketable securities	52,633,919	-	-	52,633,919
Accounts receivable	-	-	252,796	252,796
Accrued interest receivable	-	-	522,978	522,978
Demand loan receivable	15,000,000	-	-	15,000,000
Effective interest rate	4.00%	-	-	-
Notes receivable	20,382,141	50,816,600	-	71,198,741
Effective interest rate	4.00%	4.00%	-	-
Funds held in trust	-	-	25,413,982	25,413,982
Deferred financing costs	-	-	5,365,120	5,365,120
<b>Total assets</b>	<b>108,148,531</b>	<b>50,816,600</b>	<b>31,554,876</b>	<b>190,520,007</b>
<b>Liabilities and surplus</b>				
Accounts payable and accrued liabilities	-	-	2,338,377	2,338,377
Notes payable	5,837,184	121,668,965	-	127,506,149
Effective interest rate	3.12%	-	-	-
Funds held in trust	14,384,228	-	43,483,244	57,867,472
Effective interest rate	3.12%	-	-	-
Surplus	-	-	2,808,009	2,808,009
<b>Total liabilities and surplus</b>	<b>20,221,412</b>	<b>121,668,965</b>	<b>48,629,630</b>	<b>190,520,007</b>
<b>Interest rate sensitivity gap</b>	<b>87,927,119</b>	<b>(70,852,365)</b>	<b>(17,074,754)</b>	<b>-</b>